



KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations

The Honorable Members of City Council
City of Norfolk, Virginia:

Report on Compliance for Each Major Federal Program

We have audited the City of Norfolk's (the City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as the following items:

Finding #	CFDA #	Program (or Cluster) Name	Compliance requirement
2015-001	14.218	Community Development Block Grant	Cash Management
2015-001	14.239	Home Investment Partnerships Program	Cash Management
2015-002	14.218	Community Development Block Grant	Reporting
2015-003	14.218	Community Development Block Grant	Matching, Level of Effort, and Earmarking
2015-004	14.218	Community Development Block Grant	Procurement and Suspension and Debarment
2015-005	84.010	Title I, Part A	Special Test and Provisions-Comparability
2015-007	84.027, 84.173, 84.027A	Special Education Cluster (IDEA)	Reporting
2015-009	93.558	Temporary Assistance for Needy Families	Eligibility
2015-010	93.914	HIV Emergency Relief Project Grants	Reporting

Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain



deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as the following items that we consider to be significant deficiencies:

Finding #	CFDA #	Program (or Cluster) Name	Compliance requirement
2015-001	14.218	Community Development Block Grant	Cash Management
2015-001	14.239	Home Investment Partnerships Program	Cash Management
2015-002	14.218	Community Development Block Grant	Reporting
2015-003	14.218	Community Development Block Grant	Matching, Level of Effort, and Earmarking
2015-004	14.218	Community Development Block Grant	Procurement and Suspension and Debarment
2015-005	84.010	Title I, Part A	Special Test and Provisions-Comparability
2015-006	84.010	Title I, Part A	Special Test and Provisions-School-wide
2015-006	84.027, 84.173, 84.027A	Special Education Cluster (IDEA)	Special Test and Provisions-School-wide
2015-007	84.027, 84.173, 84.027A	Special Education Cluster (IDEA)	Reporting
2015-008	93.558	Temporary Assistance for Needy Families	Special Tests and Provisions-Child Support Non-Cooperation
2015-009	93.558	Temporary Assistance for Needy Families	Eligibility
2015-010	93.914	HIV Emergency Relief Project Grants	Reporting

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 23, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic



financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Norfolk, Virginia
December 23, 2015

THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

(1) Summary of Auditors' Results

Financial Statements

- (a) The type of report issued on the financial statements: **Unmodified opinion**
- (b) Material weaknesses in internal control were disclosed by the audit of the financial statements: **None**
- (c) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **None**
- (d) Noncompliance, which is material to the financial statements: **None**

Federal Awards

- (a) Material weaknesses in internal control over major programs: **None**
- (b) Significant deficiencies in internal control over major programs: **2015-001 through 2015-010**
- (c) The type of report issued on compliance each for major programs:

Federal programs	CFDA No.	Type
Community Development Block Grant	14.218	Unmodified
Home Investment Partnerships Program	14.239	Unmodified
Title I, Part A Cluster	84.010	Unmodified
Special Education Cluster	84.027, 84.173, and 84.027A	Unmodified
Temporary Assistance for Needy Families	93.558	Unmodified
HIV Emergency Relief Project Grants	93.914	Unmodified
Medical Assistance Program	93.778	Unmodified
Social Services Block Grant	93.667	Unmodified
Substance Abuse Prevention and Treatment Block Grant	93.959	Unmodified
Child Nutrition Cluster	10.553, 10.555 and 10.559	Unmodified

- (d) Any audit findings, which are required to be reported under Section 510(a) of OMB Circular A-133: **2015-001 through 2015-005, 2015-007, 2015-009 and 2015-010**
- (e) Major programs:
 - Community Development Block Grant (CDBG): CFDA No. 14.218
 - Home Investment Partnerships Program (HOME): CFDA No. 14.239
 - Title I, Part A Cluster (Title I): CFDA No. 84.010
 - Special Education Cluster (Special Education): CFDA Nos. 84.027, 84.172, and 84.027A
 - Temporary Assistance for Needy Families (TANF): CFDA No. 93.558
 - HIV Emergency Relief Project Grants (HIV): CFDA No. 93.914
 - Medical Assistance Program (Medicaid): CFDA No. 93.778

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Year ended June 30, 2015

- Social Services Block Grant: CFDA No. 93.667
- Substance Abuse Prevention and Treatment Block Grant: CFDA No. 93.959
- Child Nutrition Cluster: CFDA Nos. 10.553, 10.555 and 10.559

(f) Dollar threshold used to determine Type A programs: \$2,824,674

(g) Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

(2) Financial Statement Findings

None

(3) Findings and Questioned Costs Related to Federal Awards

Finding# 2015-001: Cash Management

Program, CFDA No., Program Year, Federal Agency, Grant Number

Community Development Block Grant, CFDA No. 14.218, Program Year 2015, U.S. Department of Housing and Urban Development, award B14-MC-51-0016

Home Investment Partnerships Program, CFDA No. 14.239, Program Year 2015, U.S. Department of Housing and Urban Development, award M14-MC-51-0203

Recipient

City of Norfolk

Criteria

In accordance with 24 CFR Section 84.22, payment methods shall be established to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients. Additionally, recipients must maintain or demonstrate the willingness to maintain written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient. The general rule as clarified in *Chapter 11: Financial Management Guidelines* is three business days of deposit of the funds. If payment takes longer than three business days, written justification should be maintained in the recipient's files.

Condition Found

Community Development Block Grant: In a sample of sixty five cash management selections, there were two cash advances that were not disbursed to vendors within three business days of deposit of the CDBG funds and no documentation was included in the recipient's files indicating the reason why disbursement of the CDBG funds took longer than three business days.

In our sample of sixty five cash management selections, there were two cash management selections that included invoices where management requested reimbursement for retainage prior to completion of the project and prior to the vendor requesting payment of the retainage. Upon receipt of the retainage from Housing Urban Development (HUD), management did not disburse the funds to the vendor within the three business day time frame. In our allowable costs/activities sample, another invoice was identified that

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included a request for retainage prior to completion of the project and prior to the vendor requesting payment for the retainage.

Additionally, we identified two cash management selections where management requested reimbursement of the same allowable expenditures twice. Management found the error and returned the funds to HUD within the fiscal year.

Home Investment Partnerships Program: In our sample of nine cash management selections, there was one cash advance that was not disbursed to the vendor within three business days of deposit of the HOME funds and no documentation was included in the recipient's file indicating the reason why disbursement of the HOME funds took longer than three business days.

Perspective and Questioned Costs

Community Development Block Grant: Out of sixty five selections of cash management selected for testwork, one cash advance sample was disbursed in 4 working days from the receipt of the CDBG funds and one cash advance sample was disbursed in 12 working days from the receipt of CDBG funds. As the expenditures were allowable, there are no questioned costs in relation to these findings.

Out of sixty five selections of cash management selected for testwork, two reimbursement requests included invoices which requested reimbursement for retainage in the amount of \$10,354.29 prior to completion of the project and prior to the vendor requesting payment of the retainage. An additional sample in our allowable costs/activities sample requested reimbursement for retainage in the amount of \$5,513.16 prior to completion of the project and prior to the vendor requesting payment of the retainage. The retainage was otherwise allowable, therefore there are no questioned costs with this finding.

Out of sixty five selections of cash management selected for testwork, management requested reimbursement for allowable expenditures in the amount of \$34,206 twice. The error was identified by management and the funds were returned to HUD. As the expenditures were allowable, there are no questioned costs in relation to these findings.

Home Investment Partnerships Program: Out of nine selections of cash management selected for testwork, one cash advance sample was disbursed in 5 working days from the receipt of the HOME funds. As the expenditures were allowable, there are no questioned costs in relation to these findings.

Cause and Effect

The requirement to disburse cash advance funds from HUD within three business days of receipt of the funds or to maintain written justification in the recipient's files as to the reason the funds could not be disbursed within three business days was not administered correctly. Furthermore, management requested reimbursement for retainage prior to the expense being incurred and requested reimbursement for the same expenditures twice.

Recommendation

The City should implement procedures to ensure that cash advances from HUD are disbursed within three business days of receipt of funds or ensure documentation is included in their files as to the reasons why the disbursement of funds could not be made in three business days. Additionally, the City should implement procedures to ensure reimbursements requests are not duplicated.

THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

Views of Responsible Officials

Management agrees with the finding. Management implemented a procedural change in November 2014 and believes this change has already corrected the identified disbursement delay issue. As a result of this procedural change, there were no delayed disbursement issues identified for the remainder of the fiscal year. Management strives to continually improve accuracy and efficiency and will continue to provide proper oversight and adequate training.

The request for reimbursement for retainage was an error and the process has been corrected to properly reflect the expenditure for accounting purposes. The process now holds the retainage in abeyance with respect to grant drawdowns until such time as there is evidence of project completion and impending payment. The City has additionally revised its process for preparing and submitting drawdowns to ensure duplicate payments are not made.

Finding# 2015-002: Reporting

Program, CFDA No., Program Year, Federal Agency, Grant Number

Community Development Block Grant: CFDA No. 14.218, Program Year 2015, U.S. Department of Housing and Urban Development, award B14-MC-51-0016

Recipient

City of Norfolk

Criteria

In accordance with OMB No. 2506, grantees may include reports generated by the Integrated Disbursement and Information System, such as the C04PR26-CDBG Financial Summary (Financial Summary Report), as part of their annual performance and evaluation report that must be submitted for the CDBG Entitlement Program 90 days after the end of the grantee's program year.

In accordance with OMB and HUD requirements, an SF-425 Federal Financial Report must be completed quarterly for the CDBG. The *Federal Financial Report Instructions* published by the OMB, states that when completing the SF-425 Federal Financial Report, grantees should enter the cumulative amounts from the date of the inception of the award through the end date of the reporting specified on the report.

Condition Found

In our testwork over the Financial Summary Report, we noted that information included in the report was not calculated correctly, which caused the earmarking ratios to be reported incorrectly. Additionally, upon correcting the Financial Summary report, it was identified that one of the earmarking compliance requirement was not met. The earmarking requirement for the percentage of CDBG funds obligated during the program year for public services is required to be less than 15%. In the current year it was 15.12% or an additional obligation of \$5,010 in public services.

SF-425 Federal Financial Reports: In our testwork over the four quarterly SF-425 Federal Financial Reports, all four reports were completed on a quarterly basis. Information was not represented on a cumulative basis from the inception of the award through the end date of the reporting specified on the report. Additionally, we were unable to obtain support for when the first quarter SF-425 Federal Financial Report was submitted.

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Year ended June 30, 2015

Perspective and Questioned Costs

Financial Summary Report: Management did not perform a detail review for accuracy of the Financial Summary Report and submitted the report with incorrect amounts. Once the issue was identified, the City resubmitted a corrected Financial Summary Report. There are no questioned costs associated with this finding.

SF-425 Federal Financial Report: The four reports tested were completed on a quarterly basis instead of a cumulative basis. There are no questioned costs associated with this finding.

Cause and Effect

Management did not perform a detail review for accuracy of the Financial Summary Report prior to submission of the Consolidated Annual Performance and Evaluation Report (CAPER). The requirement to report amounts on the SF-425 Federal Financial Reports on a cumulative basis was not administered consistently with the Federal Financial Report Instructions. The City followed informal guidance provided by a representative from the awarding agency and completed the SF-425 Federal Financial Reports on a quarterly basis.

Recommendation

The City should implement procedures to ensure that all reports submitted to HUD are properly reviewed prior to submission to ensure compliance with the reporting requirements.

Views of Responsible Officials

Management agrees with this finding. To address this finding, the City has implemented an internal process to assure timely and accurate submission. All reports will be prepared in advance of their due date, leaving sufficient time for review and corrections, as necessary. All reports will be reviewed by at least one senior team member prior to their submission. This process creates a check and balance system, clear lines of responsibilities, and a tool to confirm compliance.

Additionally, the City continues to hire a full complement of qualified staff and will ensure adequate training in the areas of grant management.

The Financial Summary (PR26) Report contained incorrect calculations that effected the reporting of three program spending ratios. The corrected PR26 indicates that the city spent greater than the maximum allowable for public service projects. Management strives to continually improve accuracy and will implement an additional level of review of the final submission prior to its release.

The City is currently filing form SF-425 on a timely basis. Additionally, the corrected PR26 report has been submitted to HUD.

Finding# 2015-003: Matching, Level of Effort, and Earmarking

Program, CFDA No., Program Year, Federal Agency, Grant Number

Community Development Block Grant: CFDA No. 14.218, Program Year 2015, U.S. Department of Housing and Urban Development, award B14-MC-51-0016

THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

Recipient

City of Norfolk

Criteria

In accordance with 24 CFR section 570.201(e), the amount of CDBG funds obligated during the program year for public services must not exceed 15 percent of the grant amount received for that year plus 15 percent of the program income it received during the preceding program year.

Condition Found

Per review of the corrected Financial Summary Report used to communicate the compliance with the earmarking requirements, the percentage of CDBG funds obligated during the program year for public services was 15.12% or an additional obligation of \$5,010 in public services.

Perspective and Questioned Costs

The additional obligation in the current year above the earmarking requirement is \$5,010 out of \$4,175,233 in grant funds for the current year and program income from the prior year.

Cause and Effect

Management had not implemented a process for subsequent review of the CDBG budget during the year to ensure the earmarking requirements were met.

Recommendation

The City should implement a process to review the CDBG budget as compared to actual amounts throughout the year to ensure the earmarking requirements are met.

Views of Responsible Officials

Management agrees with this finding. To address this finding, the City has implemented an internal process to assure timely and accurate submission. All reports will be prepared in advance of their due date, leaving sufficient time for review and corrections, as necessary. All reports will be reviewed by at least one senior team member prior to their submission. This process creates a check and balance system, clear lines of responsibilities, and a tool to confirm compliance.

Additionally, the City continues to hire a full complement of qualified staff and will ensure adequate training in the areas of grant management.

The Financial Summary (PR26) Report contained incorrect calculations that effected the reporting of three program spending ratios. The corrected PR26 indicates that the city spent greater than the maximum allowable for public service projects. Management strives to continually improve accuracy and will implement an additional level of review of the final submission prior to its release.

The corrected PR26 report has been submitted to HUD.

THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

Finding# 2015-004: Procurement and Suspension and Debarment

Program, CFDA No., Program Year, Federal Agency, Grant Number

Community Development Block Grant: CFDA No. 14.218, Program Year 2015, U.S. Department of Housing and Urban Development, award B14-MC-51-0016

Recipient

City of Norfolk

Criteria

In accordance with 2 CFR part 180, non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principles are suspended or debarred. "Covered Transactions" include those procurement contracts for goods or services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. When a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) (now called System for Award Management (SAM)), collecting a certification from the entity, or adding a clause or condition to the contract related to the covered transaction with that entity.

Condition Found

For three of the four vendors and subrecipients tested, management was unable to provide documentation of management's review of suspension and debarment prior to use of vendor's services.

Perspective and Questioned Costs

There were no questioned costs as none of the vendors or subrecipients noted were identified as being suspended or debarred based on a subsequent review of the SAM.

Cause and Effect

Management had not implemented a process for all types of contracts that supported management's determination and verification that a vendor or subrecipient was not suspended or debarred at the time of procurement.

Recommendation

The City should implement a procedure to verify and document vendors' and subrecipient's suspension and debarment through the SAM, collecting a certification from the entity, or adding a clause or condition to the contract related to the covered transaction with the vendor.

Views of Responsible Officials

Management agrees with the finding. The City is in the process of revising its procedures for verifying the suspension and debarment status of vendors via www.SAM.gov. Verification will occur during contract implementation, and prior to any contract amendment, to ensure compliance. Additionally, a copy of that verification document will be included in both the contract and project file.

THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

Finding# 2015-005: Special Tests and Provisions – Comparability

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

Title I, Part A, CFDA No. 84.010, Program Years 2011, 2012, 2013 and 2014, U.S. Department of Education, Virginia Department of Education, awards 2011-S010A110046, 2012-S010A110046, 2013-S010A110046 and 2014- S010A110046

Recipient

Norfolk Public Schools

Criteria

In accordance with Section 1120A of the No Child Left Behind Act, a local educational agency may receive funds under Title I, Part A and Title I, Part C only if state and local funds will be used in schools served under this part to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving funds under this part. Each local educational agency shall develop procedures for compliance with the comparability requirements and maintain records that are updated biennially documenting such agency's compliance with the comparability requirements (the Comparability Report).

Condition Found

Management uses the average number of students per instructional staff as a measure of comparability. The Comparability Report submitted to the Virginia Department of Education (VDOE) indicated that Norfolk Public Schools did not provide comparable services for the 2014-2015 school year for kindergarten through eighth grade schools. The VDOE notified Norfolk Public Schools (the Schools) regarding the noncompliance. Due to employee turnover, the Schools was unable to provide supporting documentation for the comparability report or proof of management review over the Comparability Report during our audit.

Perspective and Questioned Costs

Management did not meet the comparability requirements. Based on the audit finding received from the VDOE, the Schools have added additional instructors to the school to meet the comparability requirements. There are no questioned costs associated with this finding.

Cause and Effect

Due to employee turnover, management was not able to provide evidence of a management review process over the submission of the Comparability Report.

Recommendation

The Schools should implement a process to review the information included in the Comparability Report and ensure adequate planning and ongoing monitoring to meet the comparability requirements.

Views of Responsible Officials

Management agrees with the finding. Norfolk Public Schools has corrected the comparability issue identified by the Virginia Department of Education. Additionally, improvements have been made to the comparability data gathering and reporting process to ensure are all appropriate and supporting documents are maintained and filed.

THE CITY OF NORFOLK, VIRGINIA

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Finding# 2015-006: Special Tests and Provisions – Schoolwide

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

Title I, Part A, CFDA No. 84.010, Program Years 2011, 2012, 2013 and 2014, U.S. Department of Education, Virginia Department of Education, awards 2011-S010A110046, 2012-S010A110046, 2013-S010A110046 and 2014- S010A110046

Special Education Cluster (IDEA), CFDA Nos. 84.027, 84.173, and 84.027A, Program Years 2012, 2013 and 2014, U.S. Department of Education, Virginia Department of Education, awards 2012- H027A120107, 2013- H027A130172 and 2014- H027A140107

Recipient

Norfolk Public Schools

Criteria

In accordance with 34 CFR section 200.25, a school may operate a schoolwide program if not less than 40 percent of the children enrolled in the school or residing in the school attendance area for the initial year of the schoolwide program are from low-income families. The locality is required to maintain records to demonstrate compliance with this requirement.

Condition Found

In our initial sample of 5 schoolwide programs, management was unable to provide evidence of the number of children with low-income families for one school selected. Management determined the percentage of low-income families for a school based on the number of students receiving free and reduced meals. For the one school selected, management reported there were 700 students receiving free and reduced meals representing an 85.6% low-income percentage for the school. However, management was unable to provide supporting documentation for 87 students included in the schools free and reduced meal count. A decrease of 87 students in the free and reduced meal count would bring the school to a 74.9% low-income percentage.

In response to the sample above, we expanded the sample to an additional 27 schools to test 100% of schoolwide programs to address whether the percentage of students who received free-reduced meals reported for each school was greater than 40% based on the supporting documentation. In our additional sample of 27, management was unable to provide evidence of number of children from low-income families for one additional school. With respect to this school, management reported there were 631 students receiving free and reduced meals which equaled a 93.3% low-income percentage for the school. However, management was unable to provide supporting documentation for 244 students included in the school's free and reduced meal count. A decrease of 244 students in the free and reduced meal count would bring the school to a 57.2% low-income percentage.

Perspective and Questioned Costs

There were no questioned costs related to this finding as the schools were determined to be in compliance with the 40% requirement.

Cause and Effect

Management was not able to provide evidence of how the low-income count was derived for two schools.

THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

Recommendation

The Schools should implement a procedure to ensure adequate documentation is maintained to demonstrate compliance with this requirement.

Views of Responsible Officials

Management agrees with the finding. The changes in student count identified resulted from schools closings and reconfigurations which required estimation of expected student movements for the Title I application. Appropriate documentation was not maintained for these estimations. As such, Norfolk Public Schools has made improvements to the Title I application process to ensure that supporting documentation is maintained as it relates to the number of eligible students.

Finding# 2015-007: Reporting

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

Special Education Cluster (IDEA), CFDA Nos. 84.027, 84.173, and 84.027A, Program Years 2012, 2013 and 2014, U.S. Department of Education, Virginia Department of Education, awards 2012- H027A120107, 2013- H027A130172 and 2014- H027A140107

Recipient

Norfolk Public Schools

Criteria

In accordance with 34 CFR section 300.132 through 300.144, each state is required to report to the Secretary an unduplicated count of children with disabilities receiving special education and related services. The local agency is required to establish procedures for counting the number of children with disabilities receiving special education and related services and required to certify to the State that an unduplicated and accurate count has been made.

Condition Found

Norfolk Public Schools submitted an unduplicated count of children to the VDOE (December 1 count) which the VDOE used to create the December 1, 2014 count report. To test the inputs in the December 1, 2014 count report, we selected a sample of twenty five children and tested accuracy of significant data elements used in the December 1 count. Of the twenty five children selected, two children receiving special education services were coded to a different school than the school they attend. An additional child was determined to be eligible and receiving special education services prior to December 1, 2014 but was not included in the December 1 count report.

Perspective and Questioned Costs

There were no questioned costs related to this finding.

Cause and Effect

The management review control over the December 1 count was not operating effectively, which led to the inconsistencies in reporting.

THE CITY OF NORFOLK, VIRGINIA

Year ended June 30, 2015

Recommendation

The Schools should implement a process to ensure an adequate review is completed over the December 1 count report.

Views of Responsible Officials

Management agrees with the finding. Norfolk Public Schools is currently working on making improvements to the process that results in the annual December 1 count report. Improvements will include additional levels of documented reviews as well as a more comprehensive review at the student file level to ensure students are classified appropriately.

Finding# 2015-008: Special Tests and Provisions – Child Support Non-Cooperation

Program, CFDA No., Program Year, Federal Agency, Pass-Through agency, Grant Number

Temporary Assistance for Needy Families, CFDA No. 93.558, Program Year 2015, U.S. Department of Health and Human Services (HHS), Commonwealth of Virginia Department of Social Services, awards BEN-13-045-12

Recipient

City of Norfolk

Criteria

In accordance with 45 CFR Section 264.30, once notified by the Virginia Division of Child Support Enforcement (DCSE) that an individual is not cooperating, the City is required to reduce or terminate assistance to the individual.

Condition Found

In a sample of eighty instances of noncooperation tested, two families received additional monthly payments after benefits should have been terminated.

Perspective and Questioned Costs

Out of eighty instances of noncooperation selected for testwork, there were two instances in which an individual inappropriately received TANF benefits in the amount of \$1,020.50 after the date upon which benefits should have been terminated. The total amount sampled was \$20,891. In each case, the individual had been receiving TANF benefits for longer than 6 months, and became noncompliant with DCSE regulations subsequent to the sixth month. Also, in each instance paternity had not been established. As such, the TANF case must be closed as soon as administratively possible. Because the City is the administrator of these local programs and the State provides payments directly to the individuals, there are no questioned costs to the City in relation to these findings.

Cause and Effect

The requirement to stop benefit payments based on a DCSE referral was not administered in a timely manner, which led to inconsistencies in the process.

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Recommendation

The City should enhance its process to ensure that benefit are terminated timely for all cases referred by the DSCE due to noncooperation.

Views of Responsible Officials

Management concurs with the finding. Over the past few years, the City has worked to strengthen and improve internal controls and the findings were a result of extraordinary circumstances/requirements beyond our local agency control. Demands on existing eligibility staff due to a challenging VDSS computer system change, the addition of FAMIS caseloads transferred from DMAS, and extensive changes in federal requirements for eligibility for MAGI that affected a large portion of our benefit operations continued into 2015. With the ongoing challenges, the City was only able to decrease the instances of errors from (3) instance in 2014 to (2) instances in 2015 for this program.

The City is committed to continuous improvement of internal controls and will redistribute the Standard Operating Procedure and review compliance with the supervisors. The TANF and VIEW workers continue to receive refresher training on DCSE policy. Notifications are received on the first of the month from the ADAPT notification system. On the sixth of the month, the Supervisor receives an alert on cases that have not been processed and alerts the worker to process immediately. Supervisors will continue to review 100% of case actions. Program Supervisors, on the ninth of the month, will check the notification system to make sure that case actions have been taken in ADAPT and on the work list. Standard operating procedures have been established to ensure timely and accurate processing of cases. All workers are advised to review the wrap-up menu screens in ADAPT to ensure accurate TANF payments. Workers will establish a claim or create a benefit adjustment as soon as possible following the discovery of an error. Management also established a special project where a TANF quality control Benefit Programs Senior worker reviews the DCSE cases for compliance. We also consolidated the TANF cases among three supervisory units and the cases are being transferred directly to those specialized TANF units.

Finding# 2015-009: Eligibility

Program, CFDA No., Program Year, Federal Agency, Pass-Through Agency, Grant Number

Temporary Assistance for Needy Families, CFDA No. 93.558, Program Year 2015, U.S. Department of Health and Human Services (HHS), Commonwealth of Virginia Department of Social Services, award BEN-13-045-12

Recipient

City of Norfolk

Criteria

In accordance with the eligibility requirements of the TANF grant, the City is required to maintain sufficient documentation and approval support for the determination of compliance with the eligibility criteria for the individuals applying for TANF assistance. Specifically, the TANF Guidance Manual section 201.1 specifies each factor that is required for the individual to be eligible to receive benefits.

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Condition Found

In a sample of sixty five selections selected for eligibility testwork, we noted no eligibility findings. However, as part of our testwork over the special tests and provisions –VIEW Sanctions, KPMG determined that one individual received TANF benefits and was not eligible. The individual received ineligible payments in the amount of \$259.

Perspective and Questioned Costs

There was one instance in which an individual inappropriately received TANF benefits in the amount of \$259 when they should not have. In this case, the individual received a VIEW sanction in March 2014 terminating TANF benefits. Six months later, the individual reapplied for TANF benefits claiming a dependent child. This application for TANF benefits was approved for the adult and child. However, TANF benefits should have only been approved for the child since the adult had a previously outstanding VIEW sanction. Eligibility is tested on an attribute and case basis and the benefits paid to the individuals in the sample tested were not quantified. Because the City is the administrator of these local funds and the State provides payments directly to the individuals, there are no questioned costs to the City in relation to this finding.

Cause and Effect

The requirement to review and determine eligibility was not administered properly, which led to inconsistencies in the process.

Recommendation

The City should implement a process to ensure that all eligibility applications are properly approved and maintained. We further recommend that the City increase the frequency and precision level of management's review to ensure errors are detected and resolved in a timely manner.

Views of Responsible Officials

Management agrees with the findings. Individual training on proper procedures and TANF policies have been reinforced with all workers. Supervisors from the Intake Units will monitor the first 10 TANF cases monthly. Intake was redesigned in the past year so that TANF applications are assigned to one of the three units (WDC and Berkley). Additionally, dedicated worker(s) from the Intake Units may be assigned to all TANF applications for processing. The TANF refresher quarterly training Powerpoints will be used in Unit meetings to reinforce payment accuracy. Workers will establish a claim or create a benefit adjustment as soon as possible following the discovery of an error.

Finding# 2015-010: Reporting

Program, CFDA No., Program Year, Federal Agency, Pass-Through agency, Grant Number

HIV Emergency Relief Grant, CFDA No. 93.914, Program Years March 1, 2014 through February 28, 2015 and March 1, 2015 through February 28, 2016, U.S. Department of Health and Human Services (HHS), awards H89HA0053-16-01 and H89HA00053-17-01

Recipient

City of Norfolk

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Criteria

In accordance with 45 CFR Section 74.52 and 92, the HHS awarding agency requires recipients to report the status of funds for all non-construction projects or programs. Grantees are required per the Office of Management and Budget (OMB) to use the SF-425 Federal Financial Report (FFR) to report the expenditures.

1. The submission of interim FFRs will be on a quarterly, semiannual, or annual basis, as directed by the federal agency. A final FFR shall be submitted at the completion of the award agreement. The following reporting period end dates shall be used for interim reports: 3/31, 6/30, 9/30, or 12/31. For final FFRs, the reporting period end date shall be the end date of the project or grant period.
2. Quarterly and semi-annual interim reports shall be submitted no later than 30 days after the end of each reporting period. Annual reports shall be submitted no later than 90 days after the end of each reporting period. Final reports shall be submitted no later than 90 days after the project or grant period end date.
3. The agency requires cash management information to be reported on specific lines noted on the SF-425 form.
4. Grantees are required to enter cumulative amounts from date of the inception of the award through the end of the reporting period. For final FFRs, the reporting period end date shall be the end date of the project or grant period.

Condition Found

In a sample of two quarterly SF-425 FFRs tested, we noted the first quarter SF-425 was not completed by management. As such, management included the first quarter expenditures on the second quarter SF-425. Additionally, we noted the fourth quarter SF-425 was completed using quarterly amounts instead of cumulative amounts.

Perspective and Questioned Costs

The first quarter and second quarter expenditures were documented on the second quarter SF-425. The fourth quarter SF-425 was completed on a quarterly basis instead of a cumulative basis. There are no questioned costs associated with this finding.

Cause and Effect

The City did not have adequate staffing assigned to prepare the reports. The requirement to report amounts on a cumulative basis was not administered consistently with the FFR Instructions.

Recommendation

The City should implement a process to ensure that SF-425s are completed accurately and timely.

Views of Responsible Officials

Management agrees with this finding. To address this finding, the Department of Finance has implemented an internal process to assure timely submission of all grant reporting requirements. This process entails a joint evaluation by the Department's Accountant IV and the Senior Accounting Manager to review grant requirements, to prepare a reporting schedule, establish timeframes and identify responsible parties. This process creates a check and balance system, clear lines of responsibilities, and a tool for the Senior

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Accounting Manager to confirm grant compliance. This also will provide an opportunity for the Granting Agency to confirm the City's understanding of Agency reporting and process requirements.

Additionally, the Department of Finance continues to hire a full complement of qualified staff and will ensure adequate training in the areas of grant management

(4) Findings and Questioned Costs Relating to Commonwealth of Virginia

State Finding 2015-011: Conflicts of Interest

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 3, Section 5*, local government officials are required to file a statement of economic interest with the clerk of the governing body annually. The specifications requires local government officials to provide extensive disclosure of personal financial interest that may cause conflicts. The annual disclosure forms are required to be filed on or before January 15th of each year. In our testwork of disclosure forms of fifteen local government officials, one was not filed on or before the deadline date. We recommend that the City implement a management review control over the process to ensure the disclosure forms are submitted within the appropriate time frame.

Views of Responsible Officials

Management concurs with this finding, but notes that local elected officials are required to file a statement of economic interests twice a year, on December 15 and June 15, and certain other local government officials are required to file financial or real estate disclosures annually. The City is committed to obtaining and filing timely and accurate disclosure forms. It is noteworthy that all elected officials filed on time. Although we strive to meet the deadline by communicating extensively, obtaining these forms for those that serve on council-appointed bodies can on occasion be difficult. As we noted previously, when reappointing officials the City Council is now informed of the compliance status, which has significantly helped the City in obtaining these forms more timely. Additionally, last year the State Legislature changed the filing requirements such that, beginning January 1, 2016, the City Clerk is required to report the names of late filers to the Virginia Council of Conflict of Interests and Ethics Advisory Council and a \$500 fine is assessed.

State Finding 2015-012: Highway Maintenance (Weldon Cooper Survey)

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 3, Section 13*, local government officials are required to submit the annual Weldon Cooper Center Local Finance Survey and its supporting schedules, worksheets, and other documentation every year. In our testwork of twenty five expenditures supporting the survey, we noted one expenditure was not accurately reported based upon the supporting documentation. In addition, we noted a total of eighteen invoices were not accurately reported on the Weldon Cooper Center Local Finance Survey. The net impact for the eighteen invoices was an overstatement of expenditures by \$425.22 out of the total expenditures sampled of \$195,708.16. We recommend that the City implement a management review control over the process to ensure that all expenditures submitted on the annual survey are accurate.

Views of Responsible Officials

Management agrees with the finding, although recognizes the minimal over-reporting relative to the Total Eligible Expenditures. The \$425.22 related to Other Traffic Services (roadside) and was an overstatement of 0.02% of the \$1,715,379.27 total of that category and a 0.002% difference in the Total Eligible Expenditures

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of \$27,826,125.71. Management strives to continually improve accuracy and will implement an additional level of review of the final submission prior to its release.

State Finding 2015-013: Exonerations

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 2, Section 4*, the commissioner of revenue's office must approve all personal property exonerations. In our sample of twenty five personal property tax exonerations, none of the twenty five personal property tax exonerations reflected documentation indicating that they were reviewed and approved. However, we determined that the exonerations were properly calculated and recorded.

Views of Responsible Officials

Management agrees with the finding, and recognizes that all the exonerations were properly recorded. Management has communicated the need for this review and written approval, by signature, with the Commissioner of the Revenue. The Commissioner of the Revenue has indicated agreement of the need for written approve of all personal property exonerations and has incorporated the approval into the exoneration process.

State Finding 2015-014: Virginia Retirement System

In accordance with the Auditor of Public Accounts *Specifications for Counties, Cities and Towns, Chapter 3, Section 7*, the local government participating in the Virginia Retirement System (VRS) should reconcile the information in the entity's payroll system to the data in the monthly contribution confirmation in myVRS Navigator each month. The employer should confirm the contributions between the first and the 10th of the following month and schedule payment immediately after confirmation. Additionally the payment for the month must be scheduled immediately after confirming the data. In our sample of twelve months for the City of Norfolk, six months were confirmed after the 10th of the following month. For the sample of twelve months, payments were scheduled between 3 to 35 days after confirming the information, and no payments were submitted within 10 days of the following month. In our sample of three months for Norfolk Public Schools, all samples were confirmed within 10 days of the following month and payment was scheduled immediately for all samples. However, two out of the three samples were paid to VRS on the 14th of the following month.

Views of Responsible Officials

Management agrees with this finding. Both the City and Norfolk Public Schools strive to make timely monthly contributions to the Virginia Retirement System. While Norfolk Public Schools has ensured that confirmation is performed by the 10th of the following month, payment follows shortly thereafter normally within three days as allowed by VRS.